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INFORMED BUDGETEER

WHEN IS IT REALLY AN "EMERGENCY"?

- In addition to completing action on the thirteen regular appropriations bills before the October 1st, the Congress may also be called upon to enact a "emergency" supplemental appropriations bill. Inquiring budgeteers may want to consider the process by which some spending becomes "emergency spending" and thus is not restricted by the discipline of the Budget Enforcement Act of 1990 (BEA).

- Section 251(b)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 provides that the discretionary spending caps shall be adjusted upwards for emergency appropriations. (Note that section 314 of the Congressional Budget Act, subsection (b)(1) provides that the Budget Chairman shall adjust the appropriate budgetary aggregates and committee allocations to reflect any emergency spending.

- The only legal requirement for any particular appropriation being accorded "emergency" status is found in 251(b)(2)(A). This section provides no particular criteria; but merely requires that the President designate that the spending is an emergency and that the Congress so designate in a statute.

- Throughout the 1990's the annual level of emergency spending has been increasing, despite (or perhaps as a result of) increasingly tight discretionary spending caps.

- The notion of emergency appropriations was discussed during the 1987 budget summit, and the memorandum representing the budget agreement between the Congress and the Reagan administration provided that both the President and Congress would limit supplemental appropriations to those situations involving "dire emergencies". Note that at this time there were no statutory caps on discretionary spending.

- During the 1989 budget summit between the Bush administration and the Congress, an attempt was made to require that supplemental appropriations be offset by cuts in other discretionary programs. This suggestion was rejected and the negotiators fell back upon the language from 1987.

- It was not until 1990 that the issue was meaningfully addressed. This time, the results were enacted into law in the form of the BEA. The BEA also first established binding caps specifically upon discretionary spending. At that time there were 3 caps, each would be subject to categorical sequesters if yearly spending was projected to exceed the cap. An exception to sequestration was created for discretionary spending which was declared by both the President and the Congress to be an "emergency". The resulting statute did not define what constituted an emergency.

- In response to a request from Congress, in June of 1991 the Office of Management and Budget prepared a report which suggested that the Bush administration use the following criteria in determining whether to designate spending as an emergency:

  (1) Necessary Expenditure - an essential or vital expenditure, not one that is merely useful or beneficial;
  (2) Sudden - quickly coming into being, not building up over time;
  (3) Urgent - pressing and compelling need requiring immediate action;
  (4) Unforeseen - not predictable or seen beforehand as a coming need (an emergency that is part of an aggregate level of anticipated emergencies, particularly when normally estimated in advance, would not be "unforeseen"); and
  (5) Not permanent - the need is temporary in nature.

- The concept surrounding these criteria, which was in keeping with the original spirit of the law, was that of a dire emergency.

- While these criteria have never been officially adopted by Congress, it became clear in the spring of 1993 that there was an effective political limitation upon the use of the emergency designation.

- One of President Clinton's first legislative initiatives was the nearly $16 billion so-called "economic stimulus package" (H.R. 1335) which took the form of a supplemental appropriations bill which was considered in the Senate in April of 1993.

- This legislation was to have provided an emergency designation for approximately $16 billion of discretionary spending for a number of programs. After many offers and counteroffers and 4 failed cloture votes, the bill was ultimately stripped down to $4 billion in emergency spending for an extension of long-term unemployment compensation benefits.

Historical Summary of Emergency Spending
(Discretionary BA, $ in billions)

Fiscal Year	Desert Storm[A]	Other	Total
1991	44.2	0.9	45.1
1992	14.0	8.3	22.3
1993	0.6	4.6	5.2
1994	*	12.2	12.2
1995	*	7.7	7.7
1996	--	5.0	5.0
1997	--	1.6	1.6
TOTAL	58.8	40.3	99.1

*less than 50 million. [A]Includes Desert Shield spending. SOURCE: OMB Sequestration Update Report (August 26, 1998).

- Perhaps it would be wise for Congress to adopt the 1991 criteria or similar criteria as it deliberates upon the impending supplemental appropriations bill this fall. Good budgeteers should realize that since emergency spending causes the discretionary caps to be adjusted upwards the practical result of emergency spending is obviously to *reduce the currently projected budget surplus*.

RECESSION STORY - PRUDENCE MEANS NEVER HAVING TO SAY YOU'RE SORRY

- Last week CBO released information on the effects of a recession on the federal budget, which the Budget Committee's Ranking Member, Senator Lautenberg, requested. This information updates estimates from the 1997 Economic and Budget Outlook (see Chapter 3, "Uncertainty in Budget Projections," for details).

- CBO's August forecast assumes that, although the economy will slow in the short term, it will not dip into a recession without a significant divergence from the current situation. Some believe if the international financial scene becomes much worse or the stock market suffers precipitous losses, the projected budget surpluses could become deficits.

- CBO's hypothetical recession scenario follows the contours of the 1990-91 recession, which had three quarters of negative GDP growth followed by about a year of very slow growth. Assuming a recession begins late in 1999, real GDP levels would drop by as much as 4% and unemployment would increase by more than 2% relative to the baseline. CBO assumes that both inflation and interest rates would drop below baseline projections.

- A 1999 recession would push out the currently projected budget surplus in 2000 and beyond to 2003. Starting late in 1999 a recession would reduce significantly, but not eliminate, the surplus projections for 1999.

- The drop in GDP and taxable incomes could reduce annual revenue collections by $100 billion or more from baseline levels and increase Federal borrowing to make up the difference. Although falling Treasury rates would mitigate debt service costs slightly, the increase in total debt would increase net interest outlays by $30 billion annually though 2008.

- An increase in unemployment levels would increase spending on unemployment insurance and other benefit programs, such as food stamps, by $20 billion at the trough of the recession. Federal spending on welfare programs would not increase under current law, however, spending at the State level would probably rise. Lower inflation during the recession would help the Federal budget picture by reducing cost-of-living adjustments in social security and other retirement programs.

- Although this recession scenario would decrease the Federal surplus by nearly $800 billion over the next 10 years, it would not change the long-term budget picture substantially. By 2048, the country would still be facing a debt-to-GDP ratio of 100%, just as CBO projected in their most recent long-term budget estimates.

- CBO also states that an extended economic boom that does not lead to a recession could improve the short-term budget outlook. In addition, stronger potential growth that is higher than currently projected could have significant long term effects.

Budget Effect of a Hypothetical Recession
(By FY, $ in Billions)

	1999	2000	2001	2002	2003	5-yr	10-yr
August Baseline							
Surplus	80	79	86	139	136	520	1,548
Recession effect	-43	-117	-138	-141	-124	-563	-793
Deficit/Surplus	37	-38	-53	-2	12	-44	755

SOURCE: CBO; 9/8/98. NOTE: Numbers based on a unified budget concept.

SEQUESTER UPDATE REPORT

- The Balanced Budget and Emergency Deficit Control Act requires OMB to issue three sequester reports during the year: the preview report as part of the President's budget submission, the update report by August 15th of each year, and the final sequester report 15 days after the end of a session of Congress. In the preview and update sequester reports, OMB displays the current status of discretionary spending relative to the discretionary spending limits and the current status of the pay-as-you-go scorecard. In the final sequester report, OMB updates this information and issues a sequester report, if necessary.

- On August 26th, OMB issued its Sequester Update Report. With the enactment of the budget process changes in the Transportation Equity Act for the 21st Century (TEA-21), there are now 5 separate discretionary caps for FY 1999: defense, nondefense, violent crime, highways and mass transit. While none of the thirteen regular FY 1999 appropriation bills have become law yet, OMB's Sequester Update report provides preliminary scoring of these bills relative to the discretionary caps.

- According to OMB, all of the appropriation bills meet the discretionary caps with one exception. Based on House action on appropriation bills, defense discretionary budget authority exceeds the defense cap by $125 million (the Senate is $42 million in BA below the defense discretionary limit).

- Congress also has abided by the pay-as-you-go requirement. Under pay-go, OMB measures the budgetary impact of all direct spending and tax legislation that has been enacted since the Balanced Budget Act of 1997 became law. If this legislation cause a net deficit increase for a fiscal year, OMB is required to make across-the-board reductions in certain direct spending programs to eliminate this deficit increase.

- OMB's Sequester Update report shows that for FY 1999 Congress has enacted legislation that would reduce the deficit by $368 million. Under the "lookback" procedure, OMB determines the net budgetary effect for FY 1998 of all legislation enacted since OMB's issuance of its FY 1998 final sequester report and add this FY 1998 balance to the FY 1999 balance. Since the FY 1999 final sequester report, direct spending and tax legislation would reduce the budget deficit by $271 million. As a result, Congress would have to enact direct spending and tax legislation that would increase the FY 1999 deficit by more than $639 million before a pay-as-you-go sequester would be necessary.

- Before Bulletin readers rush to the pay-go bank to spend this balance, note that Congress also enforces the levels set forth in the Budget Resolution and the Senate has its own pay-go rule that would not allow this balance to be spent, but that is for another bulletin...

1996 FARM BILL: MEASURING THIS CROP OF PAYMENTS: GOOD DEAL

- Under the "Freedom to Farm" provisions of the 1996 FAIR Act, $17.2 billion has been spent in transition and deficiency payments to farmers under the seven program crops over the past three crop years. USDA estimates that under the old program, only $10.8 billion would have been spent over this period. A 59% increase in farm spending when comparing the old with the new farm bill.

- By crop, payments to corn and wheat farmers account for approximately 73% of the spending under the FAIR Act, while under the old program, payments to these farmers of these two crops would have accounted for almost 80% of the spending.

- For corn farmers, spending under the new program is up 52%, higher than the old: $7.8 billion vs. $5.8 billion. For wheat farmers, spending 40% higher, $4.8 billion vs. $3.5 billion.

- According to USDA Economic Research Service, farmers entered 1998 in better a financial status than they were at the end of 1995 (the last year under the old program). Based on the most recent data available, ERS predicts that most farm businesses will be able to withstand the recent downturn well into 1999.

- On average, only 5.6% of farm businesses were considered financially vulnerable at the end of 1997, whereas at the end of 1995, 7.8% were considered vulnerable (negative net farm income, and debt/asset ratio of greater than 40%).

- Conversely, almost 2/3 of farmers entered 1998 in a favorable financial position (positive net farm income, and debt/asset ratio of less than 40%), a comparable figure to the average of the five years preceding the implementation of the "Freedom to Farm" provisions of the FAIR Act.

Estimated Deficiency Payments & 1996 Farm Bill Payments
1996-1998 Crops ($ in millions)

Crop year:	1996/97	1997/98	1998/99
Estimated Payments: Old Program			
Corn	181	1,475	3,450
Grain Sorghum	101	175	325
Barley	8	86	176
Oats	0	0	10
Wheat	38	1,080	2,347
Upland Cotton	2	333	560
Rice	152	158	151
TOTAL: Estimated payments	482	3,307	7,019
1996 Farm Bill Payments: FAIR			
Corn	1,745	3,385	2,652
Grain Sorghum	201	338	290
Barley	137	113	122
Oats	9	8	9
Wheat	1,941	1,397	1,603
Upland Cotton	699	598	646
Rice	455	448	485
TOTAL: Farm Bill payments	5,187	6,287	5,707

Based on price projections for 1998/99 published in the August 12, 1998 issue of World Agricultural Supply and Demand Estimates.

CALENDAR

September 17: A Joint Hearing of the Senate Budget Committee, International Affairs Task Force and the Senate Foreign Relations

Committee, Subcommittee on International Operations will be held. The committees will consider the major management and budget issues facing the State Department. Witnesses: Bonnie R. Cohen, Under secretary of State for Management; Benjamin Nelson, Director, National Security and International Division, GAO; and Nicholas Andrew Rey, Former US Ambassador to the Republic of Poland. 10:00 am; SD-419.